

Message Text

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ACTION XMB-07

INFO OCT-01 EUR-25 ISO-00 EB-11 SSO-00 NSCE-00 SS-20 L-03

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C O N F I D E N T I A L LISBON 0291

E.O. 11652: GDS

TAGS: ENRG PO

SUBJ: PETROSUL REFINERY AT SINES

PASS EXIM BANK; COMMERCE FOR BIC/MEPD

REFS: LISBON 138; STATE 9236; LISBON 4496 DEC 3, 1973

1. SUMMARY: ACCORDING TO PETROSUL FINANCIAL DIRECTOR, EXIM BANK WAIVER OF GUARANTEE REQUIREMENT IS ESSENTIAL FOR MAJOR SALE OF U.S. EQUIPMENT ON REFINERY PROJECT. PETROSUL WANTS EXIM LOAN, BUT CANNOT ACCEPT CONDITIONS IN EXIM PRELIMINARY COMMITMENT WHICH WOULD PREJUDICE FINANCING ARRANGEMENTS PETROSUL ALREADY HAS MADE WITH FRANCE. PETROSUL IS UNLIKELY TO PROVIDE MORE FINANCIAL DATA TO EXIM OR TO RESPOND TO EXIM INQUIRY RE CRUDE AVAILABILITY. THIS EMBASSY STRONGLY RECOMMENDS THAT EXIM WAIVE THE GUARANTEE REQUIREMENT TO FACILITATE SALES OF AMERICAN EQUIPMENT AND TO RESOLVE A DIFFICULT BILATERAL POLITICAL ISSUE WHICH COULD SERIOUSLY
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COMPLICATE THE ONGOING AZORES BASE AGREEMENT

NEGOTIATIONS. END SUMMARY.

2. IN WIDE RANGING DISCUSSION ON PETROSUL FINANCIAL PLANS IN GENERAL AND EXIM BANK FINANCING IN PARTICULAR, PETROSUL FINANCIAL DIRECTOR DR JOAO SIMOES DE ALMEIDA, ASKED COMMERCIAL ATTACHE TO PASS FOLLOWING POINTS TO STATE DEPARTMENT FOR SECRETARY KISSINGER AND TO EXIM BANK FOR VICE CHAIRMAN SAUER:

A) PETROSUL IS GRATEFUL TO EXIM FOR EXTENDING THE EXPIRY DATE OF ITS PRELIMINARY COMMITMENT (PC) TO JUNE 30, 1974. PETROSUL HAS NOT YET MADE ALL PROCUREMENT DECISIONS AND WANTS TO KEEP EXIM PC ACTIVE UNTIL EXTENT OF U.S. EQUIPMENT PROCUREMENT IS RESOLVED.

B) PETROSUL REQUESTS THAT GUARANTEE REQUIREMENT ON EXIM DIRECT FINANCING BE WAIVED AT ONCE ON BASIS OF FINANCIAL DATA ALREADY SUBMITTED. WITH PRICES OF CRUDE AND REFINED PRODUCTS SO UNCERTAIN ON WORLD MARKET, PETROSUL BELIEVES THAT REVISED CASH FLOW PROJECTIONS ARE MEANINGLESS. FURTHERMORE, SIMOES DE ALMEIDA STATED THAT FRENCH AND ITALIAN FINANCING HAS BEEN FORTHCOMING WITHOUT ANY REVISION IN PETROSUL'S FINANCIAL PLAN OF JUNE 1973. SIMOES DE ALMEIDA IS DOUBTFUL THAT PETROSUL BOARD OF DIRECTORS WILL AUTHORIZE UPDATED FINANCIAL DATA TO SATISFY EXIM REQUEST.

C) SIMOES DE ALMEIDA SAID THAT SIGNIFICANT PROCUREMENT DECISIONS STILL HINGE ON WAIVER OF EXIM GUARANTEE REQUIREMENT. WHILE BULK OF EQUIPMENT WILL COME FROM FRANCE UNDER COFACE FINANCING PACKAGE, PROCUREMENT OF EQUIPMENT VALUED AT \$20 MILLION TO \$50 MILLION IS STILL NOT DETERMINED AND COULD YET GO TO U.S. FIRMS. HOWEVER, EXIM FINANCING WILL BE COMPETITIVE WITH COFACE ONLY IF GUARANTEE IS WAIVED. FURTHERMORE, PETROSUL IS GREATLY CONCERNED ABOUT A CLAUSE IN ITS FRENCH FINANCING AGREEMENT WHICH REQUIRES PETROSUL TO PROVIDE COFACE WITH GOP GUARANTEES IF PETROSUL SIGNS ANY OTHER LOAN WHICH CARRIES GUARANTEE CLAUSE. THUS, SIMOES DE ALMEIDA EMPHASIZED THAT TO PROTECT ITS FAVORABLE CONDITIONS WITH COFACE, PETROSUL WILL UNDER NO CIRCUMSTANCES ENTER INTO

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EXIM LOAN WHICH CARRIES GUARANTEE. IN ABSENCE OF EXIM LOAN WITH GUARANTEE WAIVED, ANY U.S. EQUIPMENT SALES WOULD HAVE TO BE FINANCED SOLELY BY COMMERCIAL BANK CREDIT AT CONSIDERABLY HIGHER COST TO PETROSUL.

D) RE EXIM REQUEST FOR STATEMENT FROM PETROSUL ON AVAILABILITY OF CRUDE OIL IN SUFFICIENT QUANTITIES TO MEET REFINERY'S NEEDS, SIMOES DE

ALMEIDA NOTED THAT PETROSUL COULD NOT REPLY BEYOND STATING THAT GOP HAS ASSURED PETROSUL THAT CRUDE WILL BE AVAILABLE. SIMOES DE ALMEIDA SUGGESTED THAT THE U.S. GOVERNMENT SHOULD BE AWARE OF ARRANGEMENT MADE BETWEEN THE GOP AND AMERICAN FIRMS IN ANGOLA. (SEE LISBON 4407 OF DEC 3, 1973 REPORTING THAT GOP AND CABINDA GULF OIL CO HAD AGREED FOR GULF TO SUPPLY PORTUGAL WITH UP TO 4.3 MILLION TONS OF CRUDE IN 1974).

3. COMMENT: EMBASSY AGAIN REQUESTS THAT EXIM BANK RECONSIDER POSITION ON GUARANTEE REQUIREMENT FOR PETROSUL FINANCING. EXPORT CONSIDERATIONS, FEASIBILITY OF PROJECT, AND BILATERAL POLITICAL FACTORS, PLUS GOP, CUF AND SONAP PARTICIPATION IN OWNERSHIP OF PETROSUL, ALL WEIGH HEAVILY ON SIDE OF FAVORABLE RESPONSE TO PETROSUL REQUEST FOR WAIVER OF GUARANTEE. PETROSUL IS EVALUATING BID PACKAGES FOR REFINERY AT THIS TIME AND IS NOT INCLINED TO CONTRACT FOR MAJOR U.S. EQUIPMENT PURCHASES IN ABSENCE OF EXIM FINANCING COMPETITIVE WITH FRENCH AND ITALIAN ARRANGEMENTS. (PLEASE NOTE THAT EMBASSY'S INFORMATION ON COMPARATIVE FINANCING SCHEMES COMES FROM PETROSUL, AND EXIM MAY WISH TO CONFIRM CONDITIONS THROUGH ITS OWN SOURCES). FINALLY, THIS EMBASSY IS FULLY AWARE OF WORDING IN AZORES AGREEMENT REGARDING EXIM BANK FINANCING. HOWEVER, WE WISH TO POINT OUT THAT THE U.S. GOVERNMENT IS CURRENTLY IN THE MIDST OF BILATERAL DISCUSSIONS WITH GOP FOR RENEWAL OF AZORES AGREEMENT AND LACK OF GOOD FAITH ON OUR PART AT THIS TIME COULD BE HIGHLY DAMAGING TO U.S. INTERESTS IN THESE NEGOTIATIONS. THE SUBJECT OF PETROSUL FINANCING HAS BEEN RAISED BY TOP GOP OFFICIALS REPEATEDLY IN THE PAST THIRTY DAYS WITH THE SECRETARY OF STATE, THE AMBASSADOR AND THE DCM. THUS, THE IMPORTANCE OF THE PETROSUL FINANCING ISSUE IN U.S.-PORTUGUESE
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RELATIONS NOW TRANSCENDS EXIM'S NORMAL EVALUATION OF THIS LOAN APPLICATION SOLELY ON ITS FINANCIAL MERITS.

4. EXIM BANK ACTION REQUESTED: IN VIEW OF THE IMPORTANCE OF THIS PROJECT, WE WOULD APPRECIATE HAVING COPIES OF YOUR FUTURE CORRESPONDENCE WITH PETROSUL. WE WOULD ALSO APPRECIATE HAVING ANY FURTHER EXIM VIEWS ON PETROSUL.
SCOTT

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